

AMENDED IN ASSEMBLY MARCH 27, 2009

CALIFORNIA LEGISLATURE—2009—10 REGULAR SESSION

ASSEMBLY BILL

No. 1156

Introduced by Assembly Member Nava
(Principal coauthor: Assembly Member Bass)

February 27, 2009

An act to ~~add Section 16430.1 to~~ amend Section 53601.8 of, and to add Section 16430.1 to, the Government Code, relating to state funds.

LEGISLATIVE COUNSEL'S DIGEST

AB 1156, as amended, Nava. Surplus funds: *local agencies*: investments.

Existing

(1) *Existing* law specifies the types of securities that are eligible for the investment of surplus state funds.

This bill would require that the first priority for the investment of surplus moneys be given to time deposits in an eligible community bank, as defined, to the maximum extent consistent with liquidity requirements and prudent management of surplus moneys.

(2) *Existing* law prescribes the instruments in, and criteria by, which local agencies, as defined, may invest surplus funds. Existing law authorizes, until January 1, 2012, the investment of up to 30% of those funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, as specified.

This bill would provide that a local agency, when it chooses to invest surplus funds in certificates of deposit, to give priority to an eligible community bank.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 16430.1 is added to the Government
2 Code, to read:

3 16430.1. (a) Notwithstanding Section 16430 or any other
4 provision of law, the first priority for the investment of surplus
5 moneys shall be, to the maximum extent consistent with liquidity
6 requirements and prudent management of surplus moneys, time
7 deposits in an eligible community bank, if the time deposits of
8 surplus funds and all other investments of surplus moneys made
9 pursuant to this section are in compliance with all other
10 requirements established by state law.

11 (b) For purposes of this section “eligible community bank”
12 means a state or national bank located in this state that meets all
13 of the following requirements and conditions:

14 (1) *Has five billion dollars (\$5,000,000,000) or less in assets.*

15 ~~(1)~~

16 (2) The bank is selected by the Treasurer for the safekeeping
17 of money belonging to or in the custody of the state.

18 ~~(2)~~

19 (3) The bank has received an overall rating of not less than
20 “satisfactory” in its most recent evaluation by the appropriate
21 federal financial supervisory agency of the bank’s record of
22 meeting the credit needs of the state’s communities, including low-
23 and moderate-income neighborhoods, pursuant to Section 2906
24 of Title 12 of the United States Code.

25 ~~(3)~~

26 (4) The bank is eligible to receive deposits only to the extent
27 that it complies with the requirements of Chapter 4 (commencing
28 with Section 16500).

29 SEC. 2. *Section 53601.8 of the Government Code is amended*
30 *to read:*

31 53601.8. Notwithstanding Section 53601 or any other provision
32 of this code, a local agency, at its discretion, may invest a portion
33 of its surplus funds in certificates of deposit at a commercial bank,
34 savings bank, savings and loan association, or credit union that
35 uses a private sector entity that assists in the placement of

1 certificates of deposit, ~~provided that~~ *if* the purchases of certificates
2 of deposit pursuant to this section, Section 53635.8, and subdivision
3 (h) of Section 53601 do not, in total, exceed 30 percent of the
4 agency's funds that may be invested for this purpose. The following
5 conditions shall apply:

6 (a) The local agency shall choose a nationally or state chartered
7 commercial bank, savings bank, savings and loan association, or
8 credit union in this state to invest the funds, which shall be known
9 as the "selected" depository institution.

10 (b) The selected depository institution may submit the funds to
11 a private sector entity that assists in the placement of certificates
12 of deposit with one or more commercial banks, savings banks,
13 savings and loan associations, or credit unions that are located in
14 the United States, for the local agency's account.

15 (c) The full amount of the principal and the interest that may
16 be accrued during the maximum term of each certificate of deposit
17 shall at all times be insured by the Federal Deposit Insurance
18 Corporation or the National Credit Union Administration.

19 (d) The selected depository institution shall serve as a custodian
20 for each certificate of deposit that is issued with the placement
21 service for the local agency's account.

22 (e) At the same time the local agency's funds are deposited and
23 the certificates of deposit are issued, the selected depository
24 institution shall receive an amount of deposits from other
25 commercial banks, savings banks, savings and loan associations,
26 or credit unions that, in total, are equal to, or greater than, the full
27 amount of the principal that the local agency initially deposited
28 through the selected depository institution for investment.

29 (f) A local agency may not invest surplus funds with a selected
30 depository institution for placement as certificates of deposit
31 pursuant to this section on or after January 1, 2012. A local
32 agency's surplus funds, invested pursuant to this section before
33 January 1, 2012, may remain invested in certificates of deposit
34 issued through a private sector entity for the full term of each
35 certificate of deposit.

36 (g) Notwithstanding subdivisions (a) to (f), inclusive, no credit
37 union may act as a selected depository institution under this section
38 or Section 53635.8 unless both of the following conditions are
39 satisfied:

- 1 (1) The credit union offers federal depository insurance through
- 2 the National Credit Union Administration.
- 3 (2) The credit union is in possession of written guidance or other
- 4 written communication from the National Credit Union
- 5 Administration authorizing participation of federally-insured credit
- 6 unions in one or more certificate of deposit placement services
- 7 and affirming that the moneys held by those credit unions while
- 8 participating in a deposit placement service will at all times be
- 9 insured by the federal government.
- 10 *(h) (1) The local agency shall give priority, with regard to*
- 11 *making investments in certificates of deposit pursuant to this*
- 12 *section, to eligible community banks.*
- 13 *(2) For purposes of this section “eligible community bank”*
- 14 *means a state or national bank located in this state that meets both*
- 15 *of the following requirements and conditions:*
- 16 *(A) The bank has five billion dollars (\$5,000,000,000) in assets.*
- 17 *(B) The bank has received an overall rating of not less than*
- 18 *“satisfactory” in its most recent evaluation by the appropriate*
- 19 *federal financial supervisory agency of the bank’s record of*
- 20 *meeting the credit needs of the state’s communities, including low-*
- 21 *and moderate-income neighborhoods, pursuant to Section 2906*
- 22 *of Title 12 of the United States Code.*
- 23 ~~(h)~~
- 24 *(i) It is the intent of the Legislature that nothing in this section*
- 25 *shall restrict competition among private sector entities that provide*
- 26 *placement services pursuant to this section.*